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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 001489

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SUBJECT: CROWN PRINCE LEADS LABOR MARKET REFORM WORKSHOP

REF: MANAMA 1390

Classified By: Charge D'Affaires Susan L. Ziadeh, Reasons 1.4 (b) and (d)

Summary

¶11. (U) On September 23, Crown Prince Sheikh Salman Al Khalifa and the Bahrain Economic Development Board (EDB) held a widely publicized public workshop on labor reform. A politically potent issue, it was the first time the government openly addressed the employment challenges Bahrain faces. A McKinsey and Company report commissioned by the GOB was the basis for much of the discussion. It cited a jobless rate of 12 to 16 percent and recommended labor reform that would create incentives to hire Bahraini workers instead of expatriates. The Crown Prince has promised labor reform as part of a comprehensive "national economic plan" and we expect this to be one of a series of both public and internal government consultations on reform. End Summary.

Straight Talk on Labor Reform

¶12. (U) On September 23 the Crown Prince's Court and the Bahrain Economic Development Board (EDB) held a workshop on labor reform, led by the Crown Prince himself. At the workshop the Crown Prince promised a comprehensive "national economic plan" that would include labor and education reform. He also pledged that any new labor policy would not be implemented without consultation with and notice to the private sector. This has been billed as the first in a series of public and private government consultations on labor reform.

¶13. (U) The press widely covered the event and the workshop was aired on Bahrain TV along with two documentary films on the plight of Bahrain's poor and unemployed. One well known commentator remarked in his editorial column that the openness with which the workshop was conducted and the frank nature of the discussion made it seem more like an opposition event than one put on by the government.

¶14. (C) Given the politically sensitive nature of unemployment, it is not surprising that the Bahrain Monetary Agency (BMA) has never published official unemployment figures for Bahraini citizens. They do publish the number of employed annually, but that figure does not differentiate between Bahraini and expatriate workers. Using those numbers the jobless rate would be at 5 to 6 percent, a rate that does not comport with reality. It was the Crown Prince who in 2002 was the first high-level government official to publicly admit that Bahraini unemployment was closer to 15 percent.

McKinsey's Report Becomes Baseline

¶15. (U) Much of the discussion on September 23 focused on the analysis and recommendations of a McKinsey and Company report commissioned by the EDB and the "Workshop Pre-Reading" summary of the report distributed before the workshop. McKinsey's report estimates Bahraini unemployment at 12 to 16 percent, a fall in average real wages of 19 percent over the last ten years, widespread under-employment, and low job satisfaction. The report also warns jobs must be found for the 100,000 new workers they expect in the market during the next decade.

¶16. (U) The report calls current reliance on the public sector for employment unsustainable, cites the need for a comprehensive reform, sees the private sector as the engine for growth, and says the first step is to make Bahraini labor more attractive to the private sector. The report criticizes current GOB labor policies, saying that barring expatriate workers from changing jobs has created a pool of low-wage expatriates willing to work long hours for less in order to stay in Bahrain. The report also criticizes the GOB's "Bahrainization" policy, which requires companies to hire a target number of Bahraini employees. The policy achieves the goal of more Bahrainis employed but also has more serious negative consequences including unneeded "ghost workers" and government micro-management of the labor market.

17. (U) Recommendations for labor reform discussed at the workshop focused on the need to introduce incentives to hire Bahraini workers. McKinsey's plan would put quotas on the number of expatriate workers and impose employer paid entry fees (adjustable based on market demands) that could effectively raise the cost of recruiting expatriates by 100 percent by 2009. Fees collected would go into an account that would be used to train Bahrainis. Bahrainization quotas would be removed and expatriates would be permitted to move freely from job to job in the market. (Note: The Crown Prince told the Ambassador, per reftel, that the monthly fee would be about USD250 per month, and all expatriate workers, including household help would be affected. End Note.)

Comment

18. (C) The workshop was important as the opening salvo in what should be a series of public and private consultations to help the government get reform right. While we clearly cannot take credit for the Crown Prince's energetic efforts at reform, the implementation of the recently signed Free Trade Agreement (FTA) does provide Bahrain's leadership with some cover as it makes necessary but hard choices.

19. (C) In starting with labor reform the Crown Prince is tackling an important political issue and acknowledging that the creation of a highly skilled work force is crucial to Bahrain's future. However, banking on the idea that an increase in the price of expatriate labor will not significantly impact the pocketbooks of a Citibank or Chevron enough to discourage them is risky, particularly as Bahrain bids to compete for foreign investment in a vibrant regional market. These reforms will have to be part of a strategy that includes significant investment incentives. The reforms also do not address who will take on the low-wage work in the absence of expatriate workers nor the dissatisfaction expressed by Bahrainis with the jobs they now have.

ZIADEH